

## MEMORANDUM

To: Parties in PSB Docket No. 7533

From: Riley Allen and George Young, Hearing Officers

Re: Guidance for Testimony in Docket 7533

Date: October 9, 2009

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As indicated in earlier e-mail communications from the Public Service Board's ("Board") staff, we are embarking on the effort to establish new Standard Offer rates pursuant to the requirements of Act 45 in Docket 7533. For the most part, the issues highlighted below surfaced in the course of the 2009 Summer Cost Analysis Subgroup review of prices in Docket 7533. The Board invites testimony on the issues. Parties will, of course, be free to pick and choose among the issues listed to provide testimony, or testify on any topic that the parties believe should be considered by the Board in making its determinations for the January 15, 2010, deadline. To help bring into focus areas of material disagreement, the parties are encouraged to rely on assumptions, inputs, and methods from earlier modeling efforts.<sup>1</sup> Parties are then encouraged to focus their testimony and accompanying support on areas that are the source of likely controversy.

### 1. Model/Spreadsheet

The parties relied on a spreadsheet model ("Cost Analysis Subgroup Model") that was first developed by representatives of Green Mountain Power for purposes of the September 15, 2009, determinations. A link to the Cost Analysis Subgroup web page is provided below and is included on many of the modeling runs for different technologies that appear on that

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<sup>1</sup>Parties are also encouraged to collaborate amongst themselves to focus issues. The short space of time available, however, may not lend itself to such collaboration. At the request of parties, however, Board staff can help facilitate collaboration by convening a meeting of the parties or the earlier Subgroup to help facilitate such agreements.

page.<sup>2</sup> The parties are encouraged to, but are not limited to relying on the same model, or a later version of the same model as it gets refined over the course of this investigation. Nevertheless, to the extent that parties rely on an alternative model, they should expect to be asked about differences between the Cost Analysis Subgroup Model and the model used for purposes of providing testimony. Parties submitting modeled cost estimates should expect the following questions to be asked by the Board, to include, but not be limited to the following:

- a. Description of the model or spreadsheet tool used and its origin.
- b. Identify any material differences between the model used and the Cost Analysis Subgroup Model.
- c. Specific areas of inquiry will include the factors used as inputs in the original Cost Analysis Subgroup Model and include:
  - i. Installed Capital Costs;
    - (1) Major components of installed capital costs (to the extent they can be separated);
    - (2) Assumptions related to interconnection costs;
    - (3) Engineering and permitting;
    - (4) Working capital requirements;
  - ii. Return on Investment
    - (1) ROE/IRR
    - (2) Capital Structure
    - (3) Debt
      - (a) Cost of debt;
      - (b) Term of debt;
  - iii. Major replacements and capital improvements over the life of the contract and/or project;
  - iv. O&M Costs;
    - (1) Variable O&M;
    - (2) Fixed O&M;
      - (a) Property tax;
      - (b) Insurance;
      - (c) Other (e.g., land lease)
  - v. Gross and Net Capacity Factors;
  - vi. Adjustments for losses (e.g., inverter loss factor);

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<sup>2</sup><http://psb.vermont.gov/docketsandprojects/electric/7523/costanalysis>

- vii. Treatment of state and federal tax credits, grants and incentives;
    - (1) Marginal tax rates applied;
    - (2) Term or time frame over which the credits were applied to future tax years;
    - (3) Proportion of installed costs for which the credits were applied (e.g., all costs except for interconnection costs);
  - viii. Treatment of the time value of money or discounting of cash flows;
  - ix. Treatment of offsetting benefits;
  - x. Asset life/contract terms;
  - xi. Levelized costs (constant nominal cost estimates);
  - xii. Inflation assumptions;
  - xiii. Property tax assumptions;
  - xiv. Utility and related charges for wheeling, settlement, administration of contract, SPEED facilitator (if applicable)
- d. Provide the model as an excel spreadsheet (or whatever electronic form available);
  - e. Those providing the above model inputs or assumptions should expect to be asked for foundation or rationale for these inputs or assumptions.

## 2. Rate Design

The price now in affect for the standard contract consists of a uniform specified price for each kWh. It is possible that alternative price structures would provide adequate compensation for producers at a lower cost or greater benefit for ratepayers. To the extent that parties would like the Board to consider a rate other than a constant nominal fixed price per kWh to be applied over the term of the contract, the party should provide the Board with the basis for altering the rate and clearly indicate how such a rate structure would continue to satisfy the requirements of Act 45.

## 3. Granularity

The issue of granularity received considerable attention during the Cost Analysis Subgroup process. Act 45 requires the Board to consider the issue of setting rates for different size thresholds, but does not require such differentiation. In the Cost Analysis Subgroup Report and the Board's September 15, 2009 Order, it was generally acknowledged that scale economies likely exist, to varying degrees, among all of the technologies covered by the Act. As such, greater granularity appears to translate into higher prices within a category of technology due to the higher costs for smaller facilities. The question then turns to the criteria and balancing that the Board should apply in exercising the discretion that the Board is required to apply under the Act.

- a. Identify the criteria that should apply in establishing greater granularity (along with either statutory support or policy rationale that is within the Board's statutory authority);
- f. Explain how to appropriately balance higher costs against criteria favoring more granularity;
- g. Explain how the level of granularity that you favor is appropriately applied to favor your recommendations on this issue.

#### 4. Application of Board Discretion under the Act

Subsection 8005(b)(2)(B)(i)(III) of the Act states as follows:

The board shall include such adjustment to the generic costs and rate of return on equity determined under subdivisions (2)(B)(I) and (II) of this subsection as the board determines to be necessary to ensure that the price provides sufficient incentive for the rapid development and commissioning of plants and does not exceed the amount needed to provide such an incentive.

What factors or criteria should the Board consider or rely upon in making adjustments to "ensure that the price provides sufficient incentives for the rapid development and commissioning of plants and does not exceed the amount needed. . . ." Parties should separately identify adjustments to:

- h. Generic costs;
- i. Rate of return;
- j. Other factors.